STI Reserve

ASCS Background Information

PRODUCTION ADJUSTMENT/ PRICE SUPPORT PROGRAMS

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Purpose of Programs

Production adjustment and price support programs are designed to (1) stabilize, support, and protect farm income and prices, (2) assist in the maintenance of balanced and adequate supplies of food, feed, and fiber, and (3) aid in the orderly marketing of farm commodities.

These programs include commodity loans and purchases, various means of production control, payments, and the farmer-owned grain reserve.

The programs are financed by the Commodity Credit Corporation (CCC), a government-owned entity, and administered by the Agricultural Stabilization and Conservation Service (ASCS). The Food, Agriculture, Conservation, and Trade Act of 1990 (the 1990 Act), as amended by the Omnibus Budget Reconciliation Act of 1990 and technical corrections legislation, provides a 5-year framework for the administration of these and other agriculture and food programs.

Key Features of the 1990 Act

The 1990 Act continues the market-oriented approach to farm policy contained in its predecessor, the Food Security Act of 1985. In addition, producers are permitted much greater planting flexibility on a portion of their crop acreage bases.

Key features of the 1990 Act include:

- The Act covers 5 crop years -- 1991-95.

- Minimum target prices are frozen at 1990 levels.

- Loan rates are tied to an average of past market prices. Discretionary reductions up to 20 percent may be made for wheat and feed grains, based on projected ending stocks-to-use ratios and on the need to maintain competitiveness in world markets.

- Mandatory marketing loan programs are implemented for soybeans and minor oilseeds (sunflowerseed, canola, safflowerseed, flaxseed, rapeseed, and mustardseed) and are continued for upland cotton, rice and honey. Marketing loans remain discretionary for wheat and feed grains.

Targeted Option Payments

Also authorized are targeted option payments (TOP) to producers who increase (or decrease) their ARP in return for an increase (or decrease) in their target price. The law specifies maximum increases or decreases permitted in announced ARPs.

Pilot Voluntary Production Limitation Program

The Secretary must implement a pilot voluntary production limitation program for wheat and feed grains in 1993 in 15 counties in each of two states, and may continue the program for 1994-95 crops. Under this program, producers may overplant their permitted acreage, but they cannot market, barter, donate, or use any wheat or feed grains above their production limitation quantity. Excess production can be stored and used in a later year if actual production falls below the limitation quantity.

Inventory Reduction Programs

The Secretary may make inventory reduction payments to producers of wheat, feed grains, upland cotton or rice who agree to: (1) forego price support loans, purchase agreements and deficiency payments; (2) limit their planting for harvest to the crop acreage base minus half the ARP and PLD; and (3) otherwise comply with these programs.

Benefits of Compliance

These programs are aimed at supporting farm income, keeping agricultural production in line with anticipated needs, and helping to assure that both farmers and consumers are equitably considered in the marketplace.

Producers must comply with program provisions to be eligible for loans, purchases, and payments. If an acreage reduction program is in effect, plantings on each farm must be reduced by a specified percentage of acreage base for the commodity. Acreage bases are established for each farm and for each commodity based upon the planted and considered-planted acreages of the commodity in previous years. Producers must devote their reduced acres, or acreage conservation reserve (ACR), to approved conservation uses. Except in arid and summer fallow areas, they must plant or maintain an annual or perennial cover on at least 50% of their ACR (up to 5% of the base).

Maximum Payment Acreage

The maximum acreage for deficiency payments for each program crop is 85 percent of the crop's established acreage base, less the acreage which is required to be devoted to ACR under an acreage reduction program.

Cost-Shares for Multiyear ACR Cover

Cost-sharing is authorized for establishing multiyear ACR perennial cover on up to 50% of the ACR. The cover must be a grass, legume, or grass-legume mixture, and must be maintained for at least 3 years.

Acreage Conservation Reserve

The Secretary may permit the planting of designated crops on up to 50 percent of the ACR in return for a specified reduction in deficiency payment acreage. Also, the Secretary may permit the planting of conserving crops for harvest on ACR and CU (conserving use) acres if such production: (1) is needed to provide an adequate supply of these commodities, (2) will not increase program costs, and (3) will not adversely affect farm income. Conserving crops include mung beans, sesame, crambe, sweet sorghum, guar, castor beans, triticale and rye.

The Secretary may permit farmers to plant oats on wheat and feed grain ACR if the projected production of oats is less than projected use. In this case, the Secretary may also permit these oats to be eligible for program benefits.

Haying and grazing of ACR and CU acreage are permitted except for a consecutive 5-month period designated by the State Agricultural Stabilization and Conservation (ASC) committee. The Secretary may permit unlimited haying and grazing during natural disasters.

Conservation Reserve Program Extended

The 1990 Act continues the Conservation Reserve Program, which is targeted at reducing erosion and improving water quality on up to 40 million acres of farmland. Producers who sign contracts agree to convert environmentally sensitive cropland to approved conservation uses for a 10-to-15 year period, in exchange for rental payments and payments to share the cost of conservation practices.

Sodbuster/ Swampbuster Provisions Extended and Revised

The 1990 Act also continues "sodbuster" and "swampbuster" provisions aimed at discouraging production on highly erodible land and wetlands.

Under wetland conservation provisions, any person who converts a wetland after November 28, 1990, will be ineligible for USDA program benefits for that year and subsequent years until the wetland is restored. Anyone who plants an agricultural commodity on wetland converted after December 23, 1985, will be ineligible for USDA benefits for the crop year in which the crop is planted.

For land designated as highly erodible, producers must obtain an approved conservation plan before planting, and they must apply an approved conservation system on such land whenever it is planted to a crop.

Otherwise, they become ineligible for USDA program benefits.

Tobacco Marketing Quota Programs

Marketing quotas are authorized under the Agricultural Adjustment Act of 1938, as amended, to regulate the marketing of some kinds of tobacco.

Marketing quotas for tobacco are implemented through acreage allotments and/or poundage quotas. Poundage quotas apply only for burley and acreage-poundage quotas apply for flue-cured tobacco.

The Secretary of Agriculture must proclaim national marketing quotas for each kind of tobacco when supplies are excessive. Such quotas take effect only when approved by a two-thirds majority of the eligible producers who vote in a referendum. If approved, marketing quotas then become mandatory for producers of that type of tobacco.

The national marketing quota for a given kind of tobacco represents, in general, the quantity estimated to be required for domestic use and exports during the year. The quota is prorated to individual farms on the basis of past production history.

Peanut Poundage Quota Program

Poundage quotas in effect for peanuts are authorized under the Agricultural Adjustment Act of 1938, as amended.

Unlike marketing quotas that provide penalties for marketings in excess of the farm's marketing quota, peanut poundage quotas do not limit the amount of peanuts that may be produced and marketed from a farm. Instead, peanut poundage quotas are used in a two-price system, with a higher price for the domestic market and a lower price for the export market.

The "quota" peanuts may go into domestic edible uses. An unlimited quantity of "additional" peanuts (peanuts grown in excess of a farm's poundage quota or on farms with no quotas) may be contracted for export or crush at a price determined between a producer and a handler. Additional peanuts not contracted must be pledged as collateral for a price support loan, with the price support level determined by the price for crushing that would result in no loss to the CCC.

Peanut poundage quotas are in effect only when approved by a two-thirds majority of eligible producers who vote in a referendum. The national poundage quota for peanuts represents, in general, the estimated quantity of peanuts required to meet domestic edible needs and peanuts for seed.

Marketing Allotments for Sugar Processors

Under the 1990 Act, mandatory marketing allotments for processors of domestic cane and beet sugar and for crystalline fructose made from corn are triggered if anticipated sugar imports in any fiscal year are less than 1.25 million tons. Estimates of fiscal year import requirements are to be made quarterly.

Marketing allotments for processors must be established at a level that will bring sugar imports up to the 1.25 million-ton minimum.

PRICE SUPPORT

Basis of Price Support

Price support programs for specified commodities were first authorized by the Agricultural Adjustment Acts of 1933 and 1938, and by the Agricultural Act of 1949, as amended.

Price support is required or authorized for wheat, corn, peanuts, rice, tobacco, wool, mohair, upland and extra long staple cotton, honey, barley, oats, rye, sorghum, milk and its products, soybeans, minor oilseeds (sunflowerseed, safflowerseed, mustard seed, canola, rapeseed, and flaxseed), sugar beets, and sugarcane. Support may be through loans, purchases, payments, or a combination of these methods.

Support Levels

For many commodities, the governing statutes have established either specific levels or ranges for loan, purchase, and payment rates.

For wheat and feed grains, basic loan rates are calculated as 85 percent of the 5-year moving average of market prices, excluding high and low years, with the maximum reduction limited to 5 percent from the previous year. However, further reductions in the basic loan rate may be made under certain conditions. If projected ending stocks-to-use ratios for the current marketing year exceed specified levels, the Secretary may further reduce the basic loan rate by up to 10 percent. An additional reduction of up to 10 percent may be made to ensure U.S. commodities are competitive in world markets. These adjustments are noncumulative; loan rate calculations for the next year begin with the basic price support rate before adjustments.

The 1990 Act specifies minimum price support rates for wheat and corn, unless those rates exceed 80 percent of the 5-year moving average of market prices. Minimum loan rates are mandated for cotton, rice, soybeans and minor oilseeds. Minimum support rates are also specified for milk, sugar, and honey.

Most announced loan and purchase levels are national averages, which are then converted into local loan and purchase rates for grades and qualities at specified locations. Premiums and discounts are established for qualities other than the base quality. These are added to or subtracted from the base level at each location.

Payments

Current law authorizes deficiency payments based on target prices; loan deficiency payments for marketing loan crops; 0/92 or 50/92 payments; emergency compensation payments (commonly referred to as Findley payments) made to producers when loan rates are reduced to maintain competitiveness; disaster payments for prevented planting or reduced yields; inventory reduction payments; targeted option payments; incentive payments; indemnity payments, and voluntary diversion payments. Funds for all payments are provided through CCC. However, implementation of several authorized payment programs, such as inventory reduction payments, targeted option payments, and paid voluntary diversion, is discretionary.

Advance Payments

If deficiency payments are expected to be made, the Secretary is required to advance 40-50 percent of the projected deficiency payment for wheat and feed grains, and 30-50 percent for upland cotton and rice. Payments must be made as soon as practicable after a producer enters into a contract to participate in a commodity program. If the final deficiency payment is less than the amount paid to a producer in advance, the producer must repay the difference by the end of the crop's marketing year. If producers fail to comply with the acreage limitation program after receiving the advance payment, they must immediately repay the amount in full plus any interest set by the Secretary.

Target Prices

Target prices are established for wheat, feed grains, upland cotton, extra long staple (ELS) cotton, and rice. When an acreage limitation program is in effect, payments are made on the smaller of either planted permitted acreage or on 85 percent of the crop acreage base less any required acreage reduction (the maximum payment acreage).

Target price deficiency payments for wheat, feed grains and rice are based on the national average market price received by producers during the first five months of the marketing year. (Or, for upland cotton, during the calendar year in which the crop is planted.) If this price drops below the target level, a payment is made to eligible producers equal to the difference between the target price and the higher of the basic loan level prior to any adjustment or the average market price.

For 1991-93 crop years, deficiency payment rates will continue to be based on the 5-month average of prices for wheat, feed grains and rice. Beginning with 1994-95, however, these deficiency payment rates will be calculated as the difference between the target price and the lower of either (1) a specified 12-month average market price or (2) the 5-month average price plus 10 cents per bushel for wheat, barley and oats, 7 cents per bushel for corn and grain sorghum, and an appropriate amount for rice, whenever these prices are higher than the basic loan rate. For the 1994-95 crops, 75 percent of the final projected deficiency payment (less any advance payment) will be made as soon as possible following the first five months of the marketing year.

Remaining payments are to be made at the end of the marketing year. Feed barley prices only will be used for barley calculations. A special assessment, not to exceed 5 percent of the value of malting barley, will be levied on malt barley producers who participate in the program.

Payment Limitations

For each of the 1991-95 crops, payments that a "person" may receive under one or more of the annual commodity programs, including oilseeds, may not exceed (1) $50,000 for deficiency and diversion payments; (2) $75,000 for marketing loan gains and loan deficiency payments, (except for honey) and any wheat or feed grain emergency compensation payments resulting from a reduction in the basic loan level (Findley payments); and (3) a total of $250,000 for the above two limits and any payment for resource adjustment (excluding diversion payments) or public access for recreation, and any inventory reduction payments. Total disaster payments are limited to $100,000.

Separate limits are set for honey, wool, mohair, and conservation programs. Payment limits for honey marketing loan gains and loan deficiency payments, and for wool and mohair incentive payments decline from $200,000 per person in 1991 to $125,000 in 1994 and 1995.

Disaster Payments

The 1990 Act authorizes prevented planting and reduced-yield disaster payments for program and nonprogram crops when crops are damaged because of weather or related conditions. For participating program crops, prevented-planting or reduced-yield payments are calculated on either of two levels of loss: (1) For crops with crop insurance, payments are calculated on losses greater than 35 percent of eligible production, and (2) For crops without crop insurance, payments are calculated on losses greater than 40 percent of eligible production. (Eligible production is determined by multiplying the sum of the acreage planted for harvest plus the prevented planted acreage times the crop's ASCS established yield on the farm.)

The payment rate for eligible production losses for participating program crops is 65 percent of the crop's target price.

Incentive Payments

The 1990 Act extends provisions of the National Wool Act of 1954 through the 1995 marketing year. Price support is provided for shorn wool and mohair and on sales of unshorn lambs through incentive payments to producers. Payments are based on the percent needed to bring the average return received by all producers up to the support level.

To determine individual payments, this percentage is applied to the producer's net proceeds from the sale of wool or mohair. Under this method, the producer who gets a higher market price also gets a higher incentive payment, which encourages producers to improve the quality and marketing of their wool and mohair.

For the first time, wool and mohair incentive payments are subject to payment limitations. The maximum amount a person may receive from these programs is limited separately for wool and mohair and declines each marketing year.

Dairy Support Program

The 1990 Act continues the milk price support program through government purchases of storable dairy products such as butter, cheese, and nonfat dry milk from processors and handlers. It requires the Secretary to recommend options for limiting growth in government purchases of dairy products through alternative milk inventory management programs (including a system of target prices and deficiency payments). The law excludes from consideration a dairy termination or whole herd buyout program, and any support price reductions below the established minimum level of $10.10 per cwt. Support prices may be adjusted up or down each calendar year based on projected CCC purchases of dairy products; however, reductions cannot be lower than the minimum support price.

The Omnibus Budget Reconciliation Act of 1990 amended the 1990 Act by reducing the support price paid to producers during the 1991-95 period. Producers who do not increase their milk marketings from year-earlier levels will receive a refund of the amount reduced.

Indemnity Payments

Under the dairy indemnity payment program, farmers are eligible for indemnity payments to compensate them for lost production if they are directed to remove their milk from commercial markets because of contamination by pesticides or other harmful substances. In addition, manufacturers of milk products are eligible for indemnity payments for milk products removed from the market because of pesticide contamination. The dairy farmer or manufacturer must not have been responsible for the contamination.

Voluntary Diversion Payments

If a paid voluntary land diversion program is announced, payments may be set through bids submitted by producers or through any other means the Secretary deems appropriate.

Marketing Payments

Under the marketing loan programs for upland cotton and rice, if the adjusted world price falls below the loan repayment rate, the Secretary must make compensatory payments to persons participating in the certificate programs for those commodities. In the case of cotton, payments are issued to "first handlers", ie., individuals or businesses who regularly buy or sell cotton. The Secretary may make payments to cotton users in negotiable marketing certificates if requested by first handlers.

Commodity Loans

The CCC makes commodity loans directly to eligible farmers -- and through cooperative marketing associations to farmers and sugar processors -- using the stored commodities as collateral. Stocks may be stored on the farm in approved structures or off the farm in approved commercial warehouses.

The farmer may repay the loan, plus accrued interest computed on a daily basis, at any time prior to loan maturity. Farmers who cannot profitably repay a loan with interest may deliver farm-stored commodities to the CCC, or forfeit warehouse-stored commodities to the CCC in full satisfaction of the loan. However, honey has a separate forfeiture limitation per person which declines $25,000 each year from $200,000 in 1991 to $125,000 in 1994 and subsequent years.

Loans on tobacco and peanuts are made through producer associations. For barley, cotton, corn, oats, rye, sorghum, soybeans, wheat, rice, and honey, loans are made either directly to farmers or to cooperatives on behalf of their members. In the case of producer association or cooperative loans, the commodities of all producers are generally pooled. The association markets a commodity held as collateral and either repays the amount due to the CCC or remits the sales proceeds to apply on the loan. A cooperative must repay the loan when the commodity is sold.

For pooled loans, if sales by the association or cooperative are greater than the sum of advances to growers and the loan repayment amount, the proceeds are generally distributed to growers participating in the pool. For tobacco, however, any pool profits are applied to any outstanding loans on other crops of the same kind of tobacco, or are retained for that purpose if current loans are not outstanding.

Producers of sugar beets and sugarcane are afforded price support through loans made to processors of refined beet sugar or raw cane sugar. Processors, in order to qualify for loans, must guarantee to pay producers who deliver sugar beets or sugarcane for processing no less than the specified price support levels for those commodities.

Purchase Agreements

As authorized or required by law, the CCC purchases rice, peanuts, soybeans, sugar, dairy products, oats, rye, corn, sorghum, barley, and wheat.

For many commodities, producers may apply at the county ASCS office for the option of selling to the CCC an approximate quantity of an eligible commodity at an established settlement value. The government may seek bids from producers for the purchase of commodities required for distribution programs. Dairy products (butter, cheese, and nonfat dry milk) are purchased from processors by the ASCS Kansas City Commodity Office.

Assessments and Fees

The Omnibus Budget Reconciliation Act of 1990 establishes a marketing assessment fee of 1 percent of incentive payments on wool and mohair and 1 percent of the loan rate on peanuts, honey and processed sugar. For soybeans and minor oilseeds, a 2-percent loan origination fee is charged for marketing loans and loan deficiency payments.

In addition to the marketing assessment, the No Net Cost Tobacco Act of 1982 requires, as a condition of price support, an assessment for each quota kind of tobacco. The assessment is paid into a no-net-cost account to assure CCC that there will not be a loss on tobacco pledged as collateral for a price support loan for 1982 and subsequent crops of that kind of tobacco.

Under the 1990 Budget Reconciliation Act, the price paid to dairy producers is reduced 5 cents per cwt. in 1991 and 11.25 cents per cwt. in 1992-95 -- refundable if producers do not increase milk marketings from the previous year. On May 1 of each year the rate shall be increased to compensate for the refunds.

From 1992-95, an additional assessment may be imposed under the 1990 Act if CCC dairy product purchases in the next calendar year are estimated to exceed 7 billion pounds, milk equivalent, total solids basis. Producers will be assessed the amount needed to reimburse the CCC for the cost of the excess purchases. The assessments can be adjusted or refunded in future years to reflect the actual purchases.

Disposition of CCC-owned Commodities

Commodities acquired by CCC are sold for domestic or export use, donated through Federal, State, and private agencies for use in child nutrition programs and to assist needy persons in the United States, and transferred to the Veterans Administration for use in hospitals and to the Department of Defense. Grains may be donated to aid livestock producers in declared acute distress and major disaster areas. Grains also may be sold at reduced prices to livestock producers in areas where feed is short due to a natural disaster.

CCC Sales Price Restrictions

Price restrictions apply to CCC commodity sales. In general, the CCC may not sell any basic or storable nonbasic commodity at less than 115 percent of the lower of either (1) the commodity's loan rate adjusted for current market differentials reflecting grade, quality, location and other factors, or (2) the loan repayment level. Oilseeds may not be sold for less than the lower of (1) 105 percent of the loan rate adjusted for market differentials, or (2) 115 percent of the loan repayment level.

Whenever the farmer-owned grain reserve is in effect, the CCC may not sell any of its stocks of wheat and feed grains for less than 150 percent of the commodity's loan rate.

Farmer-Owned Grain Reserve

The 1990 FACT Act continues the farmer-owned grain reserve (FOR) for wheat and feed grains with modifications to increase market access to reserve grain.

The Secretary may permit wheat and corn crops to enter the FOR if their respective average market prices or projected stocks-to-use ratios meet certain conditions. If both conditions are met, the Secretary must permit entry into the FOR.

If entry is permitted, the maximum quantity allowed must be between 300 and 450 million bushels for wheat, and between 600 and 900 million bushels for feed grains. There is no minimum quantity which must be maintained in the FOR.

The purpose of the reserve is to isolate grain stocks from the market to counter the price-depressing effects of surplus stocks. To participate, farmers or cooperatives must first put the eligible crop under a regular 9-month price support loan. The reserve agreement extends the original loan for 27 months, with an additional 6-month extension at the Secretary's discretion. However, producers may repay the loans and redeem their grain at any time.

To encourage participation, CCC makes quarterly storage payments to producers. Storage payments cease whenever wheat or feed grain prices equal or exceed 95 percent of the commodity's current target price. The Secretary may charge interest on extended loans whenever grain prices equal or exceed 105 percent of the target price.

Grain placed in the reserve is subject to the same storage requirements as grain in the regular price support loan program. It can be stored either on the farm or in commercial warehouses. Producers are permitted to rotate their reserve stocks to maintain quality.

Food Security Wheat Reserve

The Food Security Wheat Reserve, created to provide wheat for emergency food needs in developing countries, is extended through 1995. The Secretary must replenish stocks within 18 months of release so that there will be about 4 million metric tons in storage.

For detailed information on commodity programs, see ASCS fact sheets on individual commodities.